

DOUG STEVENS SEMINAR

MONDAY 19th FEBRUARY 2018

08.00HRS TO 09.00HRS

VENUE : **CBRE**

'C-BAR'

Henrietta House

Henrietta Place

W1G 0NB

SUBJECT

LEASE TERMS AND PHYSICAL FEATURES WHICH IMPACT ON RENTAL AND CAPITAL VALUATION

NEXT SEMINAR : 19TH MARCH 2018

PREVIOUS 40 + SEMINARS ON WWW.DOUGLASSTEVENS.CO.UK SEMINARS

INTRODUCTION

- ▶ WE WILL FOCUS ON RETAIL PROPERTIES WHICH ARE LET (TENANTED) AND THE LEASE TERMS AND PHYSICAL CHARACTERISTICS OF THOSE PROPERTIES WHICH WILL IMPACT ON THEIR RENTAL VALUE AND THUS THEIR CAPITAL VALUE
- ▶ WE VALUE BY THE COMPARISON METHOD - SEEKING EVIDENCE FROM PROPERTIES SIMILAR TO THAT WHICH WE ARE VALUING
- ▶ FOR THE PURPOSES OF THIS SEMINAR WE WILL ASSUME WE ARE TO VALUE ALL THE UNITS WITHIN A SMALL SHOPPING CENTRE
- ▶ EVEN WITHIN A SMALL SHOPPING CENTRE THE UNITS MAY BE HELD ON DIFFERENT LEASE TERMS - THEY MAY BE OF DIFFERENT SIZES - WITH DIFFERENT PHYSICAL ATTRIBUTES/DISABILITIES.
- ▶ IN ORDER TO ESTABLISH THE CAPITAL VALUE OF THE CENTRE WE MUST FIRST ESTABLISH THE RENTAL VALUE OF EACH OF THE UNITS IN THE CENTRE
- ▶ THE SHOP UNITS WILL BE ZONED (NIA) AND THE LARGER ANCHOR STORE WILL BE VALUED ON AN OVERALL BASIS (GIA)
- ▶ EVEN IF THERE IS AN ESTABLISHED ZONE A TONE (unlikely in this market) THERE ARE MANY FACTORS (LEASE TERMS & PHYSICAL) WHICH MIGHT DICTATE THAT YOU HAVE TO MAKE AN ADJUSTMENT TO THE RENTAL VALUATION AND CAPITAL VALUATION
- ▶ We are not in this exercise considering quality of centre / quality of town / location / tenant covenant - factors which would also significantly impact on rental & capital value

DESKTOP OR FULL VALUATION OF UNITS IN A SHOPPING CENTRE

- ▶ YOU MAY BE ASKED TO DO A DESKTOP VALUATION OF A SHOPPING CENTRE - PERHAPS ONLY PROVIDED WITH A GOAD PLAN AND A TENANCY SCHEDULE
- ▶ IF THE TENANCY SCHEDULE IS DETAILED IT SHOULD SPECIFY
 - UNIT FRONTAGES, SHOP DEPTHS,
 - FLOOR AREAS ZONED NIA (or overall GIA) AREAS
 - LEASE COMMENCEMENT AND EXPIRY DATES
 - RENT REVIEW DATES - RENT REVIEW BASIS (open market, RPI, etc)
 - ONEROUS (to tenant) OR FAVOURABLE (to landlord) LEASE CLAUSES
- ▶ PAY CAREFUL ATTENTION TO THE GOAD PLAN & THE TENANCY SCHEDULE
THIS WILL INFORM ANY ADJUSTMENTS /ALLOWANCES TO YOUR RENTAL VALUATIONS
WHICH WILL IN TURN INFORM THE CAPITAL VALUATION
- ▶ IDEALLY FOR A FORMAL VALUATION / INVESTMENT ACQUISITION/DISPOSAL YOU WILL -
 - INSPECT & MEASURE ALL UNITS
 - READ ALL LEASES

WAULT - Weighted Average Unexpired Lease Term

- Impact of Break Clauses

- ▶ FROM THE SCHEDULE OF TENANCIES YOU CAN CALCULATE THE AVERAGE OF THE UNEXPIRED LEASE TERMS OF ALL THE UNITS
- ▶ BUT IF THERE ARE TENANT ONLY OR MUTUAL BREAK CLAUSES IN ANY LEASES YOU NEED TO FACTOR THAT IN TO THE CALCULATION AS THE STANDARD ASSUMPTION WILL BE THAT THE BREAK CLAUSE IS OPERATED
- ▶ YOU NEED TO ESTABLISH HOW AND WHEN A BREAK CLAUSE CAN BE OPERATED -
 - FIXED AT THE 5th YEAR AFTER LEASE TERM COMMENCEMENT?
 - OR A ROLLING BREAK AFTER A SPECIFIED DATE?
 - CAN TENANT BREAK IF A TURNOVER THRESHOLD IS NOT REACHED?
 - CAN A TENANT BREAK IF THEIR EXCLUSIVITY POSITION IS COMPROMISED?
 - 3 MONTHS or 6 MONTHS or 12 MONTHS NOTICE
 - WHAT LETTING VOID WILL YOU ACCOUNT FOR?
 - WHAT INCENTIVES TO EFFECT NEW LETTING?

RENT REVIEWS

- ▶ ARE THE RENT REVIEWS TO OPEN MARKET RENT?
 - ▶ OR - TO A BASE RENT (perhaps 80%) + TURNOVER TOP-UP?
 - ▶ OR - TO A FIXED UPLIFT (stated in lease - or - compound interest, ie, 2.5% per annum)?
 - ▶ OR - RPI (Retail Price Index) with a CAP & COLLAR?
 - ▶ OR - IS THERE A CAP ON THE LEVEL OF RENTAL INCREASE?
-
- ▶ THE OPEN MARKET RENT MAY BE MORE THAN 100% IF THERE ARE L/L FAVOURABLE PROVISIONS IN THE LEASE - SUCH AS AN ENHANCED SPECIFICATION WHICH CAN BE VALUED
 - ▶ THE OPEN MARKET RENT MAY BE LESS THAN 100% IF THERE ARE ANY ONEROUS PROVISIONS IN THE LEASE
-
- ▶ THE LENGTH OF THE LEASE TERM (and/or) THE ASSUMED LEASE TERM IS AN IMPORTANT FACTOR

LEASE LENGTH

- ▶ IS THE UNEXPIRED LEASE TERM NORMAL OR STANDARD FOR THE TYPE OF UNIT?
- ▶ OR IS IT TOO LONG - OR TOO SHORT - IF SO AN ADJUSTMENT TO RENTAL VALUE MAY BE REQUIRED
- ▶ IF THE UNIT HAS A FUTURE RENT REVIEW THIS MAY ASSUME THAT A NEW LEASE IS TO BE GRANTED FOR THE ACTUAL UNEXPIRED LEASE TERM **BUT MAY REQUIRE THE ASSUMPTION OF A LONGER TERM THAN THE UNEXPIRED TERM**
- ▶ ie 5 YEARS UNEXPIRED ON LEASE BUT THE RENT REVIEW CLAUSE ASSUMES A LETTING ON A 10 YEAR TERM
- ▶ AT RENT REVIEW A TENANT MAY SEEK AN ALLOWANCE (DISCOUNT) IF THEY HAVE A LONG LEASE - DEFINED AS ONE WHICH IS LONGER THAN A LEASE WHICH MIGHT NOW BE GRANTED IN THE OPEN MARKET
- ▶ FOR A STANDARD SHOP UNIT 10 YRS MAY BE **TOO LONG** AND 15 YRS, 20 YRS OR 25 YRS IS CERTAINLY NOW ONEROUS
- ▶ IF RECENT LETTINGS IN THE CENTRE HAVE BEEN FOR 5 YR TERMS ONLY OR 10 YRS WITH TENANT ONLY BREAK AT 5TH YR AND THE ASSUMPTION IN THE RENT REVIEW CLAUSE IS FOR A 10 YR TERM YOUR VALUATION SHOULD REFLECT THIS
- ▶ DIFFERENCE BETWEEN 5 YR ACTUAL OR ASSUMED TERM AND ACTUAL/ASSUMED 10 YR TERM - MAY BE 2.5% OR 5% AND GREATER FOR LONGER ASSUMED TERMS.
- ▶ FOR A LARGER SHOP UNIT OR A RESTAURANT WITH SAY LESS THAN 10 YRS UNEXPIRED AND A FUTURE RENT REVIEW WHICH ASSUMES A NEW LEASE FOR THE UNEXPIRED TERM THIS MAY BE **TOO SHORT**
- ▶ TENANT WILL ARGUE THAT A SHORT LEASE TERM GIVES THEM INADEQUATE SECURITY AND TOO LITTLE TIME TO WRITE DOWN THE FITTING OUT COSTS - AGAIN CONSIDER A DOWNWARD ADJUSTMENT TO RENTAL VALUE

LEASE LENGTH Continued

- ▶ FOR AN ANCHOR STORE i.e. DEPARTMENT STORE, VARIETY STORE OR FOOD STORE
THE ORIGINAL LEASE TERM MAY HAVE BEEN FOR 25 - 99 YRS
- ▶ IF RENT REVIEW ASSUMPTION IS UNEXPIRED TERM AND THERE IS 10 YEARS OR LESS UNEXPIRED TENANT WILL ARGUE THAT THIS LEASE TERM IS **TOO SHORT (to write off fitting out costs)**
- ▶ BUT IF RENT REVIEW ASSUMPTION IS FOR AN ASSUMED LONG TERM OR THE ACTUAL UNEXPIRED TERM IS VERY LONG i.e. OVER 25 YRS TENANT WILL ARGUE THAT THIS IS **TOO LONG** AND THUS ONEROUS (no one taking long lease - accounting provisions require rent for whole term to be carried on balance sheet)
- ▶ TYPICAL ALLOWANCES (DISCOUNTS) 2.5% UP TO 20% DEPENDENT ON VARIOUS FACTORS
- ▶ **Q. WHAT FACTORS ARE RELEVANT TO ASSESS LEVEL OF ALLOWANCE?**
- ▶ **A. LENGTH OF LEASE COMPARED TO THE RELEVANT COMPARABLES** - Larger if it is longer
QUALITY OF LOCATION - PRIME OR SECONDARY - Larger allowance for poorer location
LEVEL OF POTENTIAL DEMAND - Larger allowance if limited demand
ALIENATION RIGHTS (CAN IT BE UNDER-LET AS WHOLE OR IN PART(S)) - Larger allowance if restrictive
- ▶ THERE WILL BE ARBITRATION AWARDS & EXPERT DETERMINATIONS TO PROVIDE EVIDENCE FOR ALLOWANCES FOR LEASE LENGTHS (TOO SHORT & TOO LONG)

ALIENATION

Assignment -- Pre-emption -- Underletting

- ▶ ASSIGNMENT - Assignment of part is almost always prohibited
- ▶ A lease prohibiting assignment of the whole is restrictive (onerous)
- ▶ L/L has full control. T cannot dispose of lease. May merit a 5% allowance (discount)
- ▶ PRE-EMPTION - L/L reserves a pre-emption right so that when T wishes to sell lease (assign) and applies to L/L for consent L/L exercises right to take a surrender matching terms which the T can achieve in the open market i.e. if best premium offer for lease was £50,000 - L/L pays £50,000 for a surrender
- ▶ **Q. Is this an onerous provision?**
- ▶ **A. Probably valuation neutral**
 - ▶ T argues that no one will submit a full offer as they know L/L can over-ride
 - ▶ Counter argument is that by surrendering T is off the hook (ie, no AGA)
- ▶ UNDERLETTING - Underletting of the whole is invariably permitted
- ▶ But a lease prohibiting underletting of whole is restrictive. May merit a 5% discount
- ▶ Underletting of part or parts is common for larger shops + multi-level shops, i.e. offices above
- ▶ A restriction on underletting part/parts of large shop/multi-level is onerous. May merit a 5% discount

KEEP OPEN CLAUSE

- ▶ THIS IS ONLY LIKELY TO APPLY ON AN ANCHOR STORE FOR A CENTRE
- ▶ DOES THE LEASE ON THE ANCHOR STORE YOU ARE VALUING HAVE A KEEP OPEN CLAUSE?
- ▶ IT MAY BE AN ABSOLUTE OR QUALIFIED COVENANT BY TENANT TO KEEP THE PROPERTY OPEN FOR TRADE
- ▶ IF SO YOU SHOULD MAKE AN ALLOWANCE (DEDUCTION) FROM THE MARKET RENT
- ▶ **Q. WHY SHOULD THE TENANT GET AN ALLOWANCE (DISCOUNT) FROM A FULL MARKET RENT?**
- ▶ **A. TENANT ARGUES THAT A KEEP OPEN PROVISION IS ONEROUS - THEY IS MAY BE TRADING AT AN UNSUSTAINABLE LOSS AND /OR BE UNABLE TO DISPOSE OF THE LEASE**
- ▶ TYPICAL ALLOWANCES ARE 2.5% TO 5% DEPENDENT ON -
 - LENGTH OF LEASE (UNEXPIRED OR ASSUMED) the longer the lease the greater the deduction
 - FLEXIBILITY IN LEASE TO UNDERLET ONLY AS A WHOLE OR IN PARTS - greater deduction if inflexible
 - STRENGTH OF TENANT DEMAND FOR THE STORE - larger deduction if limited tenant demand
- ▶ ENGLISH CASE LAW DOES NOT FORCE A TENANT TO KEEP OPEN - BUT IF TENANT CLOSES STORE IN BREACH OF THE LEASE TERMS TENANT IS LIABLE FOR DAMAGES

SPECIFICATION - Enhanced / Fitted?

- ▶ IN SHOPPING CENTRES L/L's IDEALLY SEEK STANDARD ASSUMPTIONS IN THE LEASES SUCH THAT ONE IS VALUING 'LIKE FOR LIKE'
- ▶ Eg ALL SHOP UNITS MAY BE ASSUMED TO HAVE SHOP FRONT, SCREEDED FLOOR, WC, etc
- ▶ IF ALL THE COMPARABLE EVIDENCE HAS THE SAME ACTUAL OR ASSUMED SPECIFICATION THEN NO ALLOWANCE (positive or negative) NEEDS TO BE MADE.
- ▶ IF THE UNIT OR STORE YOU ARE VALUING HAS A SPECIFICATION OVER AND ABOVE THE STANDARD AND IF THE WORDING OF THE RENT REVIEW PROVISIONS ALLOW ACCOUNT TO BE TAKEN OF THAT ENHANCED SPECIFICATION OR FITTED STATUS THEN AN ADDITION TO THE MARKET RENT SHOULD BE MADE
- ▶ Eg IF AN ANCHOR STORE HAS ESCALATORS & LIFTS OR IS ASSUMED TO BE FULLY FITTED THEN 2.5% UP TO 10% CAN BE ADDED TO THE MARKET RENT DEPENDENT ON THE AGE QUANTITY AND QUALITY OF THOSE ITEMS TO BE TAKEN ACCOUNT OF
- ▶ NB CHECK THAT ANY ENHANCED SPECIFICATIONS ARE NOT THE RESULT OF TENANTS IMPROVEMENTS WHICH FALL TO BE DISREGARDED

RESTRICTION ON STRUCTURAL ALTERATIONS

- ▶ AGAIN LESS LIKELY TO BE AN ISSUE IN A SHOPPING CENTRE - BUT MIGHT APPLY ON A LARGER OR ANCHOR STORE
- ▶ MOST LEASES PERMIT TENANTS TO CARRY OUT INTERNAL ALTERATIONS WITH L/L'S CONSENT NOT TO BE UNREASONABLY WITHHELD (OR DELAYED) NTBUW (OD)
- ▶ MOST LEASES (ESPECIALLY IN SHOPPING CENTRES) OR WHERE THERE ARE OFFICES OR RESIDENTIAL ABOVE PROHIBIT TENANT FROM CARRYING OUT STRUCTURAL ALTERATIONS - THIS IS TO PRESERVE THE STRUCTURAL INTEGRITY OF THE LANDLORD'S BUILDING
- ▶ **Q. WHY IS THIS A PROBLEM FOR SOME TENANTS - ie, WHAT STRUCTURAL WORKS ARE THEY LIKELY TO DO?**
- ▶ **A. AN ANCHOR STORE HELD ON A LONG LEASE PROHIBITING STRUCTURAL ALTERATIONS WOULD BE UNABLE TO MOVE ESCALATORS OR LIFTS OR OPEN UP FLOOR SLABS**
- ▶ ALL OF THOSE WORKS ARE STRUCTURAL - SO L/L CAN SAY **NO** - OR - YES FOR SOMETHING IN RETURN
- ▶ THERE ARE A FEW EXAMPLES ON LARGER STORES WHERE A 10% ALLOWANCE (DEDUCTION) WAS MADE -
- ▶ FOR MANY STANDARD SIZED UNITS ON STANDARD LENGTH LEASES IT IS DIFFICULT TO SUPPORT A CASE FOR AN ALLOWANCE
- ▶ ASSESS WHETHER A RESTRICTION ON STRUCTURAL ALTERATIONS IS A MATERIAL ISSUE ON YOUR CASE

RESTRICTIVE USER - EXCLUSIVITY

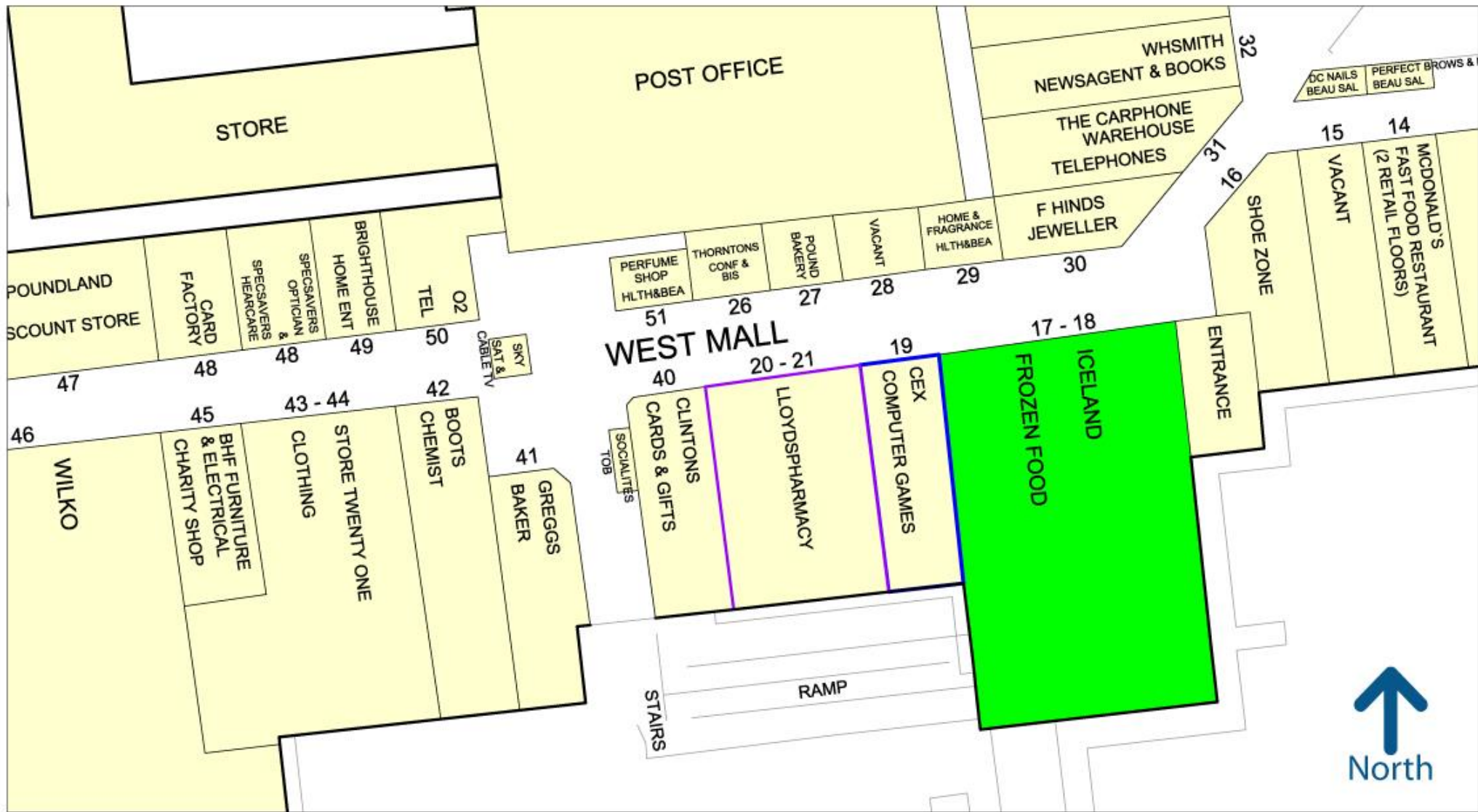
- ▶ IT IS NOT IN MOST SHOPPING CENTRES LET ON MODERN LEASES COMMON FOR THERE TO BE RESTRICTIVE USER CLAUSES
- ▶ BUT WHERE THEY DO OCCUR AN ALLOWANCE (DISCOUNT) FROM OPEN MARKET RENT MAY APPLY
- ▶ Eg A UNIT MAY ONLY BE USED WITHIN CLASS A2 AS A BANK
- ▶ USER CLAUSES MAY BE ABSOLUTELY RESTRICTIVE, QUALIFIED, ie L/L's CONSENT IS REQUIRED - OR - OPEN WITHIN A SPECIFIED USE CLASS OR CLASSES.
- ▶ NO ADJUSTMENT (ALLOWANCE) IS NECESSARY IF YOU ARE COMPARING LIKE WITH LIKE
- ▶ BUT IF A USER CLAUSE IS ABSOLUTELY RESTRICTIVE (ie, allowing no other use for a unit for which there might not be any demand for that use) THEN AN ALLOWANCE (DISCOUNT) FROM OPEN MARKET RENT MAY BE WARRANTED
- ▶ THIS MIGHT BE AS MUCH AS 10% - AGAIN DERIVED FROM SUITABLE COMPARABLE EVIDENCE
- ▶ HOWEVER CHECK THAT THE RENT REVIEW CLAUSE DOESN'T OVERRIDE THE USER CLAUSE
- ▶ ie, AT RENT REVIEW IT IS ASSUMED THAT THERE IS NO RESTRICTION IN PLACE
- ▶ ARE THERE ANY **EXCLUSIVITIES** IN PLACE? ie, HAVE ANY TENANTS BEEN GRANTED LEASES WHICH PROTECT THEM FROM ANY COMPETING USER IN THE CENTRE - THIS MIGHT IMPACT ON THE ABILITY TO LET ANY VACANT UNITS WITHIN THAT TRADE

PHYSICAL FACTORS IMPACTING ON VALUE

- ▶ IF ALL THE UNITS IN A SHOPPING CENTRE ARE OF A VERY SIMILAR SIZE & SHAPE AND CONFIGURATION NO ALLOWANCES NEED TO BE MADE
- ▶ BUT THAT IS RARELY THE CASE
- ▶ WHERE THERE ARE SIGNIFICANT PHYSICAL DIFFERENCES BETWEEN UNITS IT IS APPROPRIATE TO MAKE AN ALLOWANCE (addition or deduction)
- ▶ A UNIT IN A PROMINENT CORNER LOCATION WITH A GLAZED RETURN FRONTAGE WOULD ATTRACT AN ADDITION
- ▶ A UNIT WITH ANY OF THE FOLLOWING PHYSICAL CHARACTERISTICS MIGHT ATTRACT A DISCOUNT -
 - LARGE SIZE (QUANTUM) IF COMPARED WITH SMALLER UNITS
 - DISPROPORTIONATE FRONTAGE TO DEPTH
 - IRREGULAR SHAPE / MASKED AREAS
 - IRREGULAR CONFIGURATION / DIFFERENT FLOORPLATES
- ▶ NB The Goad plans overleaf and subsequent references to specific shop units are for illustrative purposes only - to provide possible examples of allowances for physical factors - they are not the actual allowances which might apply on these units

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QUANTUM



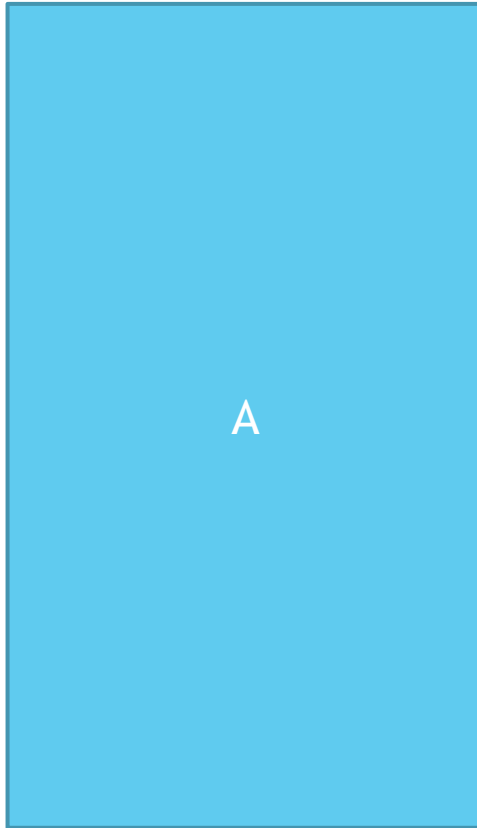
QUANTUM

- ▶ Q. SHOULD A DOUBLE UNIT (outlined PURPLE on the plan - one which is exactly twice the size of a single unit outlined in BLUE on the plan) BE VALUED AT TWICE THE RENT?
- ▶ A. POSSIBLY - BUT NOT DEFINITELY - IT DEPENDS ON COMPARABLE EVIDENCE (ie, is there evidence that a double unit is rented at 2 x a single unit) - IT MAY ALSO DEPEND ON POTENTIAL TENANT DEMAND (ie, is there demand for double units or only for single units)
- ▶ WHERE THERE IS AN IDENTIFIED DIFFERENCE AN ALLOWANCE WILL BE MADE FOR QUANTUM
- ▶ THIS MAY BE A DISCOUNT OF UP TO 10% - APPLIED TO WHOLE UNIT (not just the ground floor)
- ▶ IN OUR EXAMPLE THE LLOYDS CHEMIST UNIT IS DOUBLE THE SIZE OF ADJACENT CEX UNIT
- ▶ IN OUR EXAMPLE THE ICELAND UNIT (GREEN) IS SIGNIFICANTLY LARGER THAN THE OTHER SHOP UNITS SO IF THE ZONED EVIDENCE IS DERIVED FROM A STANDARD SIZED SHOP UNIT THEN A QUANTUM ALLOWANCE (DISCOUNT) WILL BE JUSTIFIED
- ▶ TYPICALLY 10% OFF THE OPEN MARKET RENT OF THE WHOLE UNIT

DISPROPORTIONATE FRONTAGE TO DEPTH (FTD)

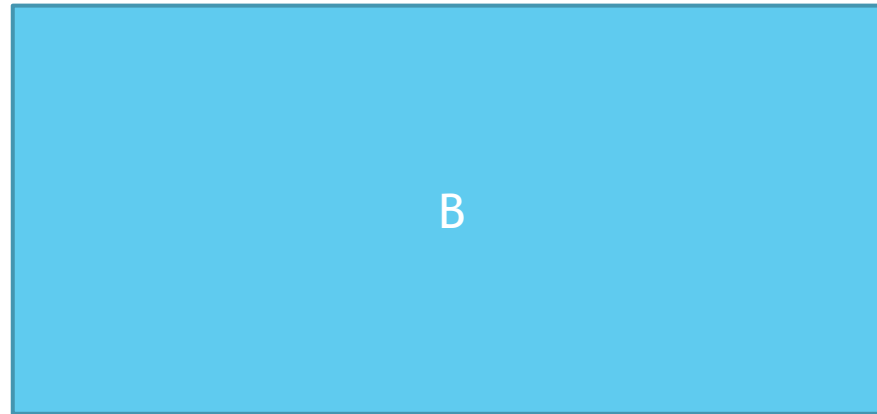
IS THE SHOP UNIT WIDER THAN IT IS DEEP? IF SO IS IT PENALISED BY THE ZONING METHOD OF VALUATION?

- ▶ SHOP A is 30 FT WIDE X 60 FT DEEP



1,800 SQ FT 1,050 UNITS ITZA

- ▶ SHOP B is 60 FT WIDE X 30 FT DEEP

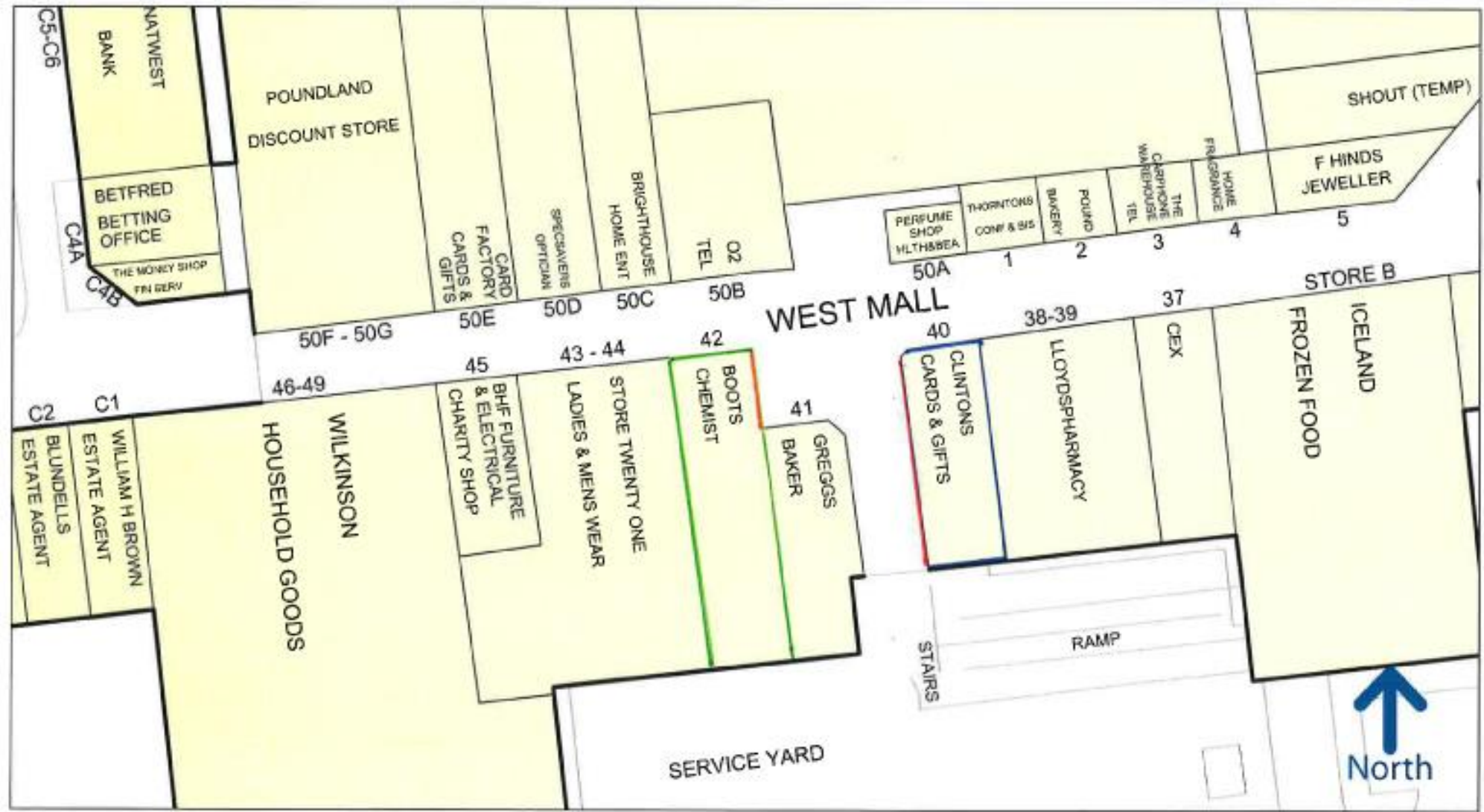


1,800 SQ FT 1,500 UNITS ITZA

Disproportionate Frontage to Depth Cont'd

- ▶ ASSUME ZONE A RATE IS £100
 - ▶ SHOP A 1,050 ITZA UNITS X £100 ZONE A = £105,000 per annum
 - ▶ SHOP B 1,500 ITZA UNITS X £100 ZONE A = £150,000 per annum
 - ▶ Q. IS SHOP B (same size as SHOP A but with twice the shop frontage) WORTH £150,000 pa?
WHEREAS SHOP A IS ONLY £105,000 pa?
 - ▶ A. POSSIBLY - BUT NOT DEFINITELY - IT DEPENDS ON COMPARABLE EVIDENCE (ie, is there evidence that a full rent has been paid for a double width unit without a discount for FTD?)
 - IT MAY ALSO DEPEND ON POTENTIAL TENANT DEMAND (ie, is there strong enough demand for double width unit for a letting to be effected without a discount for FTD?)
- SHOP B HAS A MUCH GREATER FRONTAGE AND SO CAN DISPLAY MORE GOODS AND SO IN THEORY ATTRACT MORE CUSTOMERS AND GENERATE MORE SALES / MORE PROFIT - THEREFORE SUPPORTING A HIGHER RENT
- ▶ BUT ARE THERE DIMINISHING RETURNS? ie, will the extra frontage really justify a rent which in this example is % higher?
 - ▶ THE PRINCIPLE OF AN ALLOWANCE (DISCOUNT) FOR FTD ORIGINALLY DERIVED FROM A RATING CASE
 - ▶ WH Smith & Sons v Clee VO LT1978 RA 93
 - ▶ (14% Allowance for shop which was 7 units wide - 137 ft frontage x 46 ft depth)
 - ▶ REASON – Zoning method over-values this unit
 - ▶ Triumph Securities Ltd v. Reid Furniture Co. Ltd (1986) 283 EG 107
 - ▶ Furniture shop on Kings Road - Arbitrators Award 14% for FTD
 - ▶ THERE ARE MANY NEGOTIATED SETTLEMENTS FOR FTD, + ARBITRATION AWARDS + INDEPENDENT EXPERT DETERMINATIONS
 - ▶ ALLOWANCES (DISCOUNTS) - RANGE FROM 5% UP TO 25% DEPENDENT ON DEGREE

PARTIAL & FULL RETURN FRONTAGES



RETURN FRONTAGE

- ▶ The Goad plan shows Boots (GREEN) Which has a partial return frontage and Clintons (BLUE) which has a full return frontage
- ▶ Q. WHY COULD A RETURN FRONTAGE ADD TO THE RENTAL VALUE OF A SHOP
- ▶ A. THE FOLLOWING POSITIVE ARGUMENTS COULD BE ADVANCED
 - R/F INCREASES PROMINENCE OF THE SHOP
 - CUSTOMERS CAN SEE INSIDE THE SHOP THUS ENHANCING THE TENANT'S
 - OPPORTUNITY TO ATTRACT MORE CUSTOMERS
 - THE TENANT HAS A GREATER OPPORTUNITY TO DISPLAY THEIR WARES.
- ▶ THE NEGATIVE ARGUMENTS WOULD BE:-
- ▶ MOST RETAILERS NOW SEEK THE MAXIMUM AMOUNT OF LINEAR WALL SPACE AND SO DO NOT WANT A GLAZED RETURN FRONTAGE BECAUSE THEY COULD NOT RACK AGAINST THAT FRONTAGE AND SO LOSE LINEAR WALL SPACE.
- ▶ THE DRESSING OF SHOP WINDOWS IS TIME CONSUMING AND COSTLY
- ▶ THE INSURANCE PREMISES ARE HIGHER FOR A UNIT WITH A GLAZED RETURN FRONTAGE

RETURN FRONTAGE

- ▶ WHERE THERE IS A RETURN DISPLAY FRONTAGE THE EFFECT ON THE VALUE MUST DEPEND ON LOCAL EVIDENCE.
- ▶ IF A PERCENTAGE APPROACH IS ADOPTED IT SHOULD BE BORNE IN MIND IN VALUATION THAT FOR ANY GIVEN DEPTH OF RETURN DISPLAY FRONTAGE THE BENEFIT OF THAT FRONTAGE IN PERCENTAGE TERMS WILL MORE NORMALLY DECLINE AS THE WIDTH OF THE SHOP FRONTAGE INCREASES (SEE JOHN LEWIS & CO LTD V GOODWIN (VO) AND ANOTHER LT 1980 RA 1)
- ▶ RETURN FRONTAGES ARE OFTEN UNIQUE AND CARE MUST BE EXERCISED WHEN TRANSLATING EVIDENCE OF ONE RETURN INTO THE VALUATION OF ANOTHER.
- ▶ WHERE A RETAIL UNIT OCCUPIES A CORNER POSITION IT MAY HAVE GLAZING ON PART OF THE SIDE ELEVATION AND WE REFER TO THIS AS RETURN FRONTAGE (R/F).
- ▶ JEWELLERS IN PARTICULAR LIKE CORNER SHOPS WITH R/F OR SPLAYED FRONTAGE
- ▶ IF THE RETURNED GLAZED FRONTAGE RUNS FOR THE ENTIRE LENGTH OF THE SHOP THEN IT WILL BE APPROPRIATE TO APPLY A PERCENTAGE ADDITIONAL TO THE VALUE OF THE GROUND FLOOR OF WHOLE SHOP.
- ▶ DEPENDENT ON THE QUALITY OF THE RETURN FRONTAGE (IS IT FACING OTHER RETAIL UNITS - DOES IT SUBSTANTIALLY ADD TO THE PROMINENCE OF THE SHOP - IS THERE A SECONDARY ENTRANCE FROM THE RETURN FRONTAGE ELEVATION). ONE MIGHT ADD 10% OR 7.5%, 5% OR 2.5% TO THE TOTAL RENTAL VALUE OF THE GROUND FLOOR TO REFLECT THE BENEFIT OF THE RETURN FRONTAGE.
- ▶ IN A SITUATION WHEREBY THE GLAZED RETURN FRONTAGE IS PARTIAL (IE. ONLY PART OF THE SHOPS RETURN FRONTAGE BENEFITS FROM GLAZING AND THE REST IS A SOLID STRUCTURE AN ADDITION TO THE RENTAL VALUE SHOULD BE MADE FOR THE AREA OF THE SHOP WHICH BENEFITS FROM THE GLAZED FRONTAGE). SO, FOR EXAMPLE, IF THE FIRST 10 FEET OF ZONE A HAD A GLAZED RETURN FRONTAGE THEN AN ADDITION OF 10% / 7.5% / 5% / 2.5% WOULD BE ADDED TO THE FIRST 10 FEET ONLY.

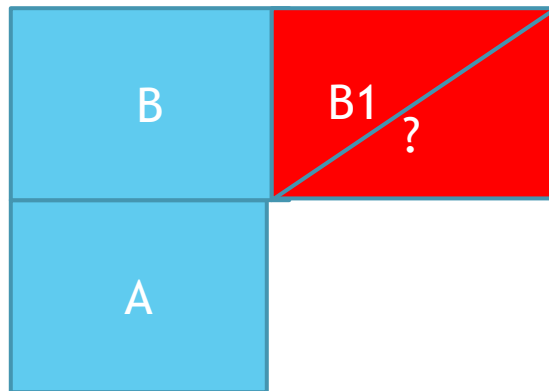
MASKED AREA IN DOG-LEG / 'L' SHAPE UNIT



MASKING

- ▶ SOME UNITS ARE DOG-LEGGED OR 'L' SHAPED WHEREBY PART OF THE GROUND FLOOR SPACE IS OFF-SET ie, NOT VISIBLE FROM THE MID-POINT OF THE SHOP FRONTAGE
- ▶ IN THE IMAGES BELOW THE RED AREA IS OFF-SET. THIS IS ARGUABLY LESS VALUABLE THAN THE BLUE SPACE IMMEDIATELY ADJACENT (although both areas are at the same shop depth - ie, in the same Zone)
- ▶ THERE ARE 2 WAYS TO REFLECT THE LESSER VALUE OF THE RED AREA
- ▶ IN THIS EXAMPLE FRONT BLUE AREA IS ZONE A (valued at $A/1$) - BLUE AREA BEHIND IS ZONE B (valued at $A/2$) THEREFORE RED AREA IS LEVEL WITH ZONE B.
- ▶ IT CAN BE VALUED AT ZONE B1 ADOPTING RATE OF $A/3$ (which is a 50% discount for the masking effect)
- ▶ BUT AS YOU WILL SEE IN THE 2nd IMAGE ONLY PART OF THE RED AREA IS NOT VISIBLE FROM THE MID-POINT OF THE SHOP FRONTAGE TO REFLECT THIS YOU TREAT ALL THE REAR BLUE AREA AT $A/2$ AND ONLY THE TRIANGULAR MASKED RED AREA IS REGARDED AS ZONE B1 AND WOULD BE VALUED AT $A/3$
- ▶ MASKING - WHERE PART OF THE GROUND FLOOR OF A SHOP UNIT IS NOT VISIBLE FROM THE SHOP FRONTAGE

IS WHOLE RED AREA MASKED?



OR IS ONLY THIS RED AREA MASKED FROM THE FRONT OF THE SHOP?

